

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

<b>IN THE MATTER OF THE APPLICATION OF</b>	)	
<b>UNITED WATER IDAHO, INC. FOR AN</b>	)	<b>CASE NO. UWI-W-04-3</b>
<b>AMENDMENT TO ITS CERTIFICATE OF</b>	)	
<b>PUBLIC CONVENIENCE AND NECESSITY NO.</b>	)	
<b>142 AND FOR AN ACCOUNTING ORDER.</b>	)	<b>NOTICE OF ORAL ARGUMENT</b>
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On August 9, 2004, United Water Idaho, Inc. (United Water; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting authority to remove the Carriage Hill Subdivision from the Company's certificated service area and for an accounting order regarding distribution of proceeds from the sale of the Carriage Hill domestic water system from United Water to the City of Nampa. On August 25, 2004, the Company filed supporting testimony for its Application.

**Background**

On March 29, 1999, the Commission in Order No. 27976 approved an expansion of United Water's certificated service area to include the Carriage Hill Subdivision in Canyon County, Idaho near the City of Nampa. The expansion was pursuant to a Non-contiguous Water System Agreement between the Company and Carriage Hill dated *November 20, 1998*. At the same approximate time, the Company's corporate parent, United Waterworks, entered into a separate understanding with the Carriage Hill developers that United Waterworks would loan the developers up to \$350,000 to finance the construction of the Carriage Hill source of supply system only. Reference 1) Design-Build Promissory Note dated December 7, 1998 and 2) Joint and Several Individuals Guaranty signed by Carriage Hill developers.

As initially constructed, the Carriage Hill development had only one well to serve as the source of supply. In the spring of 2002, the developer had embarked on Phase 2 of the distribution system that would add 20 lots to the original 27 in Phase 1. Eventually, 25 lots would be connected, the maximum permitted by the Idaho Department of Environmental Quality (DEQ) for a system with only one source well. Under DEQ requirements, a second source of supply is required for a water system serving more than 25 connections.

In early 2003, the Carriage Hill developers informed United Water that they did not have funds to construct a second source of supply or to continue payments to United Waterworks. Without a second source of supply Carriage Hill would not be able to expand. Without expansion, Carriage Hill developers would be unable to generate funds to finance a new well or to pay United Waterworks.

On August 15, 2003, the City of Nampa indicated its desire to enter into negotiations with United Water and Carriage Hill in connection with the ownership, operation and maintenance of the Carriage Hill domestic water system and the connection of the system to Nampa's Municipal Water System.

On August 25, 2003, Carriage Hill requested a waiver from the Idaho Department of Environmental Quality to allow an additional ten lots in the subdivision to be connected to the water system prior to the installation of a second source of supply, which second source of supply, it was stated, would take the form of connection to Nampa's Municipal Water System. As of the date of this Application approximately 30 lots in the Carriage Hill Subdivision have been connected to the domestic water system.

**Purchase Agreement—United Water/City of Nampa**

United Water (Seller) has entered into a Purchase Agreement (Agreement) with the City of Nampa (Buyer) dated 12 March, 2004. As reflected in the Agreement, the purchase price is \$375,000. A small portion of the purchase price, approximately \$36,000, is to be paid to United Water Idaho. The remainder of the purchase, approximately \$338,000, is to be paid to United Waterworks, Inc., owner of a Design-Build Promissory Note in the original principal amount of \$350,000 dated December 7, 1998, said note being the joint and several obligation of Carriage Hill LLC.

United Water contends that acquisition of the Carriage Hill domestic water system by the City of Nampa is consistent with the Public Convenience and Necessity because:

- Nampa has adequate source of supply and operational capability to provide safe and reliable water service to the subdivision;
- The connection of Nampa's distribution system to the Carriage Hill domestic water system will provide a second source of supply as required by DEQ rules thus insuring reliable water supply to the subdivision and permitting further expansion of the subdivision; and

- The rates charged by Nampa for domestic water service are lower than the rates charged by United Water, and customers within the subdivision will therefore experience a decrease in the cost of domestic water service.

Application Exhibit E (revised) sets forth United Water's proposed journal entries to account for the \$36,000 to be received by United Water at closing. Revised Exhibit E reflects Advanced Plant in Service of \$354,906 and Contributed Plant in Service of \$177,439. The advanced plant reflects the source of supply portion of the system and was provided by the developer. The contributed plant reflects the distribution portion of the system and was fully funded by the developer. Because advanced plant and contributed-plant are not included in the Company's rate base, United Water states that customers have not, through their rates, paid any return on those investments. It is the Company's contention that its customers have not acquired any financial or equitable interest for which they should be compensated upon sale of the Carriage Hill assets. United Water contends that the Company's accounting proposal is consistent with established regulatory accounting principles and requests that the Commission approve it.

On September 1, 2004, the Commission issued a Notice of Application and Modified Procedure in Case No. UWI-W-04-3. The deadline for filing written comments was September 27, 2004. The Commission Staff was the only party to file comments. On October 12 the Company filed Reply Comments.

Staff does not object to the sale of the Carriage Hill Water System to the City of Nampa. Staff contends, however, that United Waterworks has no legal claim to any portion of the proceeds from the sale of the Carriage Hill Water System. Staff contends that the interests of ratepayers in advanced or contributed property is equivalent to that of the Company and should be treated as such in an equitable distribution of sale proceeds. Staff proposes that the proceeds from the sale be accounted for in a different manner than recommended by the Company. The Company in Reply Comments (and Affidavit) notes that in attempting to structure a solution to the dilemmas presented by the Carriage Hill situation, the Company did not proceed based on a rigid analysis of the legal rights and obligations of the various parties. Rather the Company looked for a practical solution that did not harm any ratepayers and that unwound the financial obligations in a way that all parties were made whole. What the Company did may not be

required from a strict legal point of view, but neither, it contends, is it prohibited. United Water contends that Staff's proposed distributions and recommended accounting proposals are contrary to law and sound public policy. United Water requests the opportunity to present oral argument.

YOU ARE HEREBY NOTIFIED that **ORAL ARGUMENT IN CASE NO. UWI-W-04-3 IS SCHEDULED FOR 9:30 A.M. NOVEMBER 1, 2004, AT THE COMMISSION'S HEARING ROOM, 472 WEST WASHINGTON, BOISE, IDAHO.** The subject matter of the oral argument is 1) the interest of ratepayers in advanced or contributed property; 2) the Company's proposed distribution of proceeds from the sale of the Carriage Hill domestic water system; and 3) related Staff distribution and accounting proposals.

YOU ARE FURTHER NOTIFIED that the Application in Case No. UWI-W-04-3 together with the Comments of Staff and Reply Comments of United Water can be reviewed during regular business hours at the Commission's office in Boise, Idaho. The Application and Comments are also available on the Commission's website at [www.puc.state.id.us](http://www.puc.state.id.us) under the "File Room" icon and "Water Cases."

YOU ARE FURTHER NOTIFIED that all proceedings in this case will be held pursuant to the Commission's jurisdiction under Title 61 of the Idaho Code and that the Commission may enter any final Order consistent with its authority under Title 61.

YOU ARE FURTHER NOTIFIED that all proceedings in this matter will be conducted pursuant to the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

YOU ARE FURTHER NOTIFIED that all hearings and prehearing conferences in this matter will be held in facilities meeting the accessibility requirements of the Americans with Disabilities Act (ADA). Persons needing the help of a sign language interpreter or other assistance in order to participate in or to understand testimony and argument at a public hearing may ask the Commission to provide a sign language interpreter or other assistance at the hearing. The request for assistance must be received at least five (5) working days before the hearing by contacting the Commission Secretary at:

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DATED at Boise, Idaho this 20<sup>th</sup> day of October 2004.

  
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Jean D. Jewell  
Commission Secretary

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